


GO Committee #2
January 15, 2015

Briefing

MEMORANDUM

January 12, 2015

TO: Government Operations and Fiscal Policy Committee

FROM: Jacob Sesker, Senior Legislative Analyst 

SUBJECT: **Briefing** - Report of the State Task Force to Review Property Tax Assessment Procedures and the Assessment Appeals Process

Maryland Senate Bill 172 – Budget Reconciliation and Financing Act of 2014, required the establishment of a working group to examine issues related to the assessment process for real property, personal property, and property tax credits and exemptions. The working group included representatives from local governments. Montgomery County was represented by Director of Finance Joseph Beach. Montgomery County Treasurer Mike Coveyou also participated in the meetings of the working group and its subcommittees. Mr. Beach and Mr. Coveyou will brief the Committee with respect to the working group process and results, and discuss potential impacts on Montgomery County revenue, operating costs, and business processes.

The assessment working group (AWG) was charged with examining the following issues:

1. Whether a physical exterior inspection of each property is necessary to properly assess real property for tax purposes;
2. SDAT's ability to timely and adequately maintain changes in property status that may occur throughout the year and incorporate new properties on the tax roll;
3. The extent of discrepancies in the calculation of certain tax credits and exemptions and approaches for improving accuracy; and
4. The feasibility of, and any legal impediments to, contracting with a third party vendor to perform periodic audits of the property tax credit and exemption programs for which SDAT calculates the credit or exemption or of other functions for which an external evaluation may provide greater accuracy.

The AWG issued a final report in December. *See Transmittal*, © 1; *Executive Summary*, © 3. The full report is available at http://www.dat.state.md.us/AWG/AWG_FinalRpt_12_15_14.pdf. The report included three “potential solutions/general recommendations”, summarized below:

1. SDAT should look at new business processes in an effort to realize additional efficiency within the assessment and other administrative processes and how technology can be utilized to maximize that efficiency.
2. An Advisory Council should be created that would include representatives of SDAT and appropriate state agencies, as well as representatives of local governments. The Advisory Council would meet periodically to discuss issues of "mutual interest and concern", including the development of new business processes, leveraging of new technologies, and issues raised by any partner (such as a local government).
3. Staffing for the assessment, tax credit, and exemption functions of SDAT remains a matter of importance but must be considered in light of new technology and changes to business practices.

The issues addressed by the group and the findings and recommendations reflect the tension between the state's role in the assessment process, local governments' roles in the permitting process and tax collection, the varied extents to which state and local governments rely on property tax revenue to fund their budgets, and state law requirements that local governments fund a portion of the operating costs for local SDAT offices. It is not clear whether the implementation of the AWG recommendations will reduce those tensions.

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State of Maryland

DEPARTMENT OF ASSESSMENTS AND TAXATION

Office of the Director

MARTIN O'MALLEY
Governor

ROBERT E. YOUNG
Director

December 15, 2014

The Honorable Martin O'Malley
Governor of Maryland
State House
100 State Circle
Annapolis, Maryland 21401

The Honorable Thomas V. Mike Miller, Jr
President of the Senate
State House
Annapolis, Maryland 21401

The Honorable Michael E. Busch
Speaker of the House
State House
Annapolis, Maryland 21401

Dear Governor O'Malley, President Miller, and Speaker Busch:

Attached is the Report of the 2014 Maryland Assessment Work Group (AWG). The report includes this Letter of Transmittal, an Executive Summary, and a Summary of Findings and Recommendations. The Report describes the process and analysis relied upon to reach conclusions considered during AWG meetings held between June and December 2014.

As required by Senate Bill 172 - Budget Reconciliation and Financing Act (BRFA) of 2014, the Director of the State Department of Assessments and Taxation (SDAT) established the work group to examine issues related to the assessment process for real property, personal property, and property tax credits and exemptions. AWG included members of the public, state agencies, local governments, as well as participants from interested entities. Four subcommittees were formed with AWG members and non-members who are experts from local government on such matters as zoning, building permits, finance, property appraisal and housing.

AWG's charge was to:

"...examine issues related to the property assessment process for both real and personal property and the tax credit programs for which the Department is responsible for calculating property tax credits and exemptions.

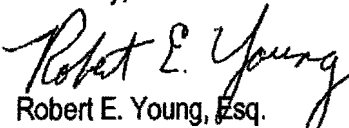
Governor O'Malley
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The work group shall examine the following issues:

- (1) Whether a physical exterior inspection of each property is necessary to properly assess real property for tax purposes;*
- (2) The Department's ability to timely and adequately maintain changes in property status that may occur throughout the year and incorporate new properties in the system of accounts;*
- (3) The extent of discrepancies in the calculation of certain tax credits and exemptions and approaches for improving accuracy; and*
- (4) The feasibility of, and any legal impediments to, contracting with a third-party vendor to perform periodic audits of the property tax credit and exemption programs for which the Department calculates the credit or exemption or of other functions for which an external evaluation may provide greater accuracy."*

Many of the report recommendations would allow for a more comprehensive property assessment process and ensure that changes to properties are accurately reflected on the tax roll, thus providing an equitable and uniform property tax system for all citizens.

Sincerely,



Robert E. Young, Esq.
Director, Maryland Department of Assessments and Taxation
Chairman, 2014 Maryland Assessment Work Group

**REPORT
OF
THE 2014 MARYLAND
ASSESSMENT WORK GROUP**

PREPARED FOR

THE GOVERNOR
AND
THE GENERAL ASSEMBLY
OF
MARYLAND

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December 15, 2014

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1.0 Executive Summary – Assessment Work Group

The 2014 Maryland Assessment Work Group (AWG) was established pursuant to Senate Bill 172 to examine issues related to the assessment process for real and personal property, tax credits, and exemptions. AWG was charged with examining the following issues:

1. Whether a physical exterior inspection of each property is necessary to properly assess real property for tax purposes;
2. The Department's ability to timely and adequately maintain changes in property status that may occur throughout the year and incorporate new properties on the tax roll;
3. The extent of discrepancies in the calculation of certain tax credits and exemptions and approaches for improving accuracy; and
4. The feasibility of, and any legal impediments to, contracting with a third party vendor to perform periodic audits of the property tax credit and exemption programs for which the Department calculates the credit or exemption or of other functions for which an external evaluation may provide greater accuracy.

SDAT began some of the work on behalf of AWG in May 2014 by developing and implementing several specialized data collection projects that were presented to AWG:

1. An analysis of the work that is required (referred to as CORE Processes) of real property assessors in the 24 Assessment Offices;
2. A statewide review of the means of transmitting building permits, vacant property, and other information to SDAT by the 24 local governments;
3. A special review and physical inspection of 1,554 randomly chosen real property accounts in 7 local jurisdictions to test the need for physical inspections;
4. A summary by jurisdiction of the 206,109 properties that were physically inspected and included in SDAT's administrative assessment valuation system (AAVS), and assessment information management system (AIMS) reports for the January 1, 2015 Reassessment Notices;

5. A summary of the 29,551 new construction accounts for a 2.5 year period added to the assessable base of the 24 jurisdictions;
6. A report containing the results of a special physical inspection and reexamination of all 3,424 real properties in Baltimore City that receive a charitable, educational, or religious exemption; and
7. At the time the BRFA language was adopted, SDAT had just begun the StateStat process. StateStat presented a summary of its findings and recommendations to AWG in November and upon review found many of them mirrored those identified by AWG. The StateStat report including SDAT responses has been included in the document in Appendix 6.4.

Potential Solutions /General Recommendations:

There are three general recommendations made by AWG which apply to all four of the charges studied by the Work Group. These recommendations are:

- SDAT should look at new business processes in an effort to realize additional efficiency within the assessment and other administrative processes and how technology can be utilized to maximize that efficiency;
- Since local governments are major business partners with SDAT, we recommend that the legislature or Governor consider the creation of an Advisory Council. The Advisory Council would include representatives from SDAT, appropriate state agencies and local governments. In order to assure progress on the implementation of the AWG's recommendations concerning physical exterior inspection, timely pickup, and calculation of tax credits and exemptions, the Advisory Council would meet periodically to discuss issues of mutual interest and concern, including the development of new business processes, the leveraging of new technologies, and matters specifically raised by any partner; and
- Staffing for the assessment, tax credit and exemption functions of SDAT remains a matter of importance but it must be considered in light of new technology and changes to business processes.

The heart of the AWG report is in Section 1.1 – Findings, Conclusions and Recommendations beginning on page 10. It summarizes findings and recommendations for each charge of AWG.

THE NEED FOR PHYSICAL INSPECTIONS

AWG found that physical inspections are necessary on some periodic basis; that SDAT does not have the resources to ensure physical inspections of every property as required by law; and, that the lack of physical inspections does impact the accuracy of property assessments.

AWG does not suggest any statutory changes at this time but recommends reconsideration after the conclusion of a technology pilot project currently underway that includes remote verifications of property characteristics.

This pilot project is using existing staff and will allow SDAT to determine if there are positive improvements in assessments, as well as identify appropriate staffing levels to complete remote and timely onsite inspections. If successful, the technology should be used in appropriate jurisdictions and should emphasize using existing technology available through other State agencies and local governments by leveraging existing resources and by establishing data sharing and use agreements.

Primary Recommendations for Physical Inspections:

- Physical inspections of properties are necessary for assessment quality, uniformity, and verification of property characteristics, unless there is an adequate substitute technology for this traditional assessment methodology;
- SDAT should complete its evaluation of the oblique aerial photography pilot project that is ongoing in two counties to determine if this is the preferred technology to serve as the necessary substitute, replacement for, or as a complement to physical inspections of real properties for assessment purposes;
- Once the results of the pilot project are known, SDAT should report its findings and make a recommendation to the General Assembly for a change in the law regarding the requirements for physical inspections of properties;
- SDAT should also conduct a comprehensive analysis of aerial photography and other complementary technologies to determine how the number of additional assessor positions required for the physical inspection of one-third of all the properties each year can be reduced; and
- Local governments already in possession of oblique aerial photography and SDAT should partner in renegotiating licenses and data contracts to include SDAT employees in local assessment offices as permissible users of the information.

TIMELY PICKUP OF NEW PROPERTY

Outdated technology and staffing shortages have also compromised the maintenance of property changes for new construction and incorporating building permits provided by local governments.

Better systems communications need to be established between local assessment offices and their corresponding local governments that recognize differences in technology from jurisdiction to jurisdiction. The overall goal should be to move toward complete electronic transmission of information, including feedback information on how building permit information is used in property valuation.

The pilot project should also address the usefulness of remote technology (specifically oblique aerial photography) in picking up new properties, renovations and demolitions.

Primary Recommendations for Timely Pickup:

- Since local governments and SDAT are partners with shared responsibilities in property tax administration, local governments should, to the extent possible, assist SDAT with the timely pickup of new or renovated properties by providing their building permit, change in use, occupancy, and vacancy information in a convenient electronic format;
- SDAT should develop and improve data sharing mechanisms for local governments providing follow-up on the actions taken by SDAT on building permits and other information; and
- SDAT should look at new business processes in an effort to realize additional efficiency within the assessment process and how technology can best be utilized to maximize that efficiency.

TAX CREDITS AND EXEMPTIONS

Discrepancies in the calculation of credits and exemptions have been adequately presented in reports from the Office of the Legislative Audits (OLA). Important findings pointed to the lack of auditing of credits due to staff shortages.

AWG supports the recommendations of OLA, especially those related to the Homeowners' and Renters' Tax Credits and the Homestead Tax Credit.

DLS also prepared a special report entitled Evaluation of the Enterprise Zone Tax Credit.

A response at the initiative of SDAT and the Department of Business and Economic Development (DBED) will be provided to the Co-Chairmen of the Tax Credit Evaluation Committee in December 2014. Many of the DLS recommendations are supported by AWG, including ensuring proper data collection and transmission. AWG also recommends

establishing new procedures to ensure that local governments receive their Enterprise Zone Credit reimbursements in a timely manner.

Regarding Real Property Exemptions, AWG recommends the use of an exemption questionnaire to be filed by certain tax exempt entities in order to affirm their continued exempt status and a new rating system developed by SDAT to review marginal exemptions on a more frequent basis.

Primary Recommendations for Tax Credits and Exemptions:

The primary recommendation of AWG for each type of tax credit and exemption under this charge is as follows:

- For the Homeowners' and Renters' Tax Credit Programs, SDAT should electronically scan and index all tax credit applications and attachments to increase the timeliness of tax credit audits;
- For the Homestead Tax Credit Program, SDAT will perform additional automated audits and a special test project of homeowners receiving the largest homestead credits to verify their continued eligibility for this credit;
- For the Enterprise Zone Tax Credit Program, SDAT should utilize its AAVS system to regularly produce uniform and complete reports for local governments and DLS on the amounts of assessment on which this credit is being granted; and
- For charitable, educational, and religious exempt properties, SDAT should utilize in all 24 assessment offices a standardized questionnaire and its new rating or "scoring" system to reexamine the continued eligibility of a property for exemption for one-third of the eligible properties each year or more frequently when circumstances indicate.

THIRD PARTY AUDITS OF TAX CREDITS AND EXEMPTIONS

The final charge of AWG was to consider the feasibility of, and legal impediments to, SDAT contracting with a third party vendor to perform audits on the accuracy of tax credit and exemption calculations. AWG examined the availability of vendors to perform these types of audits. While there are legal impediments preventing a third party vendor from auditing the Homeowners' and Renters' Tax Credit Programs, the Homestead Tax Credit Program and the Enterprise Zone Tax Credit Program could be subject to this type of outside review.

In addition, there are national firms that can physically reassess and evaluate exempt properties.

Primary Recommendations for Third Party Audits of Tax Credits and Exemptions:

- The use of third party audits performed by business firms is not recommended for tax credits and exemptions; and
- The audits by OLA were deemed sufficient by AWG.

PERSONAL PROPERTY

The annual assessment and certification of personal property are not occurring on a timely basis because of staff reductions. However, a new online personal property reporting system will be implemented by January 1 of 2015 which is expected to improve the timeliness of certifications. A variety of technology recommendations are made by AWG, including expansion of the online reporting system to all businesses by 2017 and incentivizing online filers.

Because some property filers misidentify their local jurisdiction to SDAT, there is a need to verify property locations in order to provide accurate initial certifications to the correct county and municipality.

Regarding an outside auditor, AWG recommends a pilot program to determine the cost and qualitative and quantitative benefit from a third party auditor. It is also recommended that a review be undertaken to determine the need for statutory changes to address confidentiality status of tax return information and responsibility for paying audit fees.

Primary Recommendations for Personal Property Assessments:

- SDAT should expand its new online return filing system due for deployment on January 1, 2015 to allow in the next two subsequent filing years the inclusion of all types of business entities and the use of third party accounting software;
- SDAT should conduct a staffing analysis based on the efficiencies of the new technology in order to determine the number of employees needed to conduct account discovery and perform regular audits; and
- For local governments and municipalities, SDAT should utilize verification software to match property location addresses for all types of filings in order to provide accurate initial certifications.

AWG acknowledges that the General Assembly created this study in recognition of the relationship between local governments and State government in the assessment of real and personal property, tax credit programs, and the granting of property tax exemptions for citizens and businesses in Maryland. The AWG Report provides an in-depth analysis of many of the important functions of SDAT and their impact on local governments. AWG believes that this report lays the foundation and opportunity for future work together as a means of achieving a more efficient and cost effective system that provides the most equitable and uniform assessment and tax system to the citizens we all serve.

5.0 Members and Meetings

AWG members represent state, county, and municipal government from agencies involved with assessment and property tax administration as well as public members.

5.0 Members and Meetings

- 17 AWG Members and 16 Participants
- 10 Full AWG Meetings
- 21 Total AWG and Subcommittee meetings

- Robert E. Young, Director, State Department of Assessments and Taxation Chairman
- Joseph Beach, Director of Finance, Montgomery County
- Jason M. Bennett, Director of Finance, Allegany County
- Martha Bennett, Finance Administrator, Ocean City
- William Burgee, Director Property Acquisition & Relocation, Baltimore City
- Jim Cannistra, Maryland Department of Planning
- Jim Francis, Maryland CPA Association, Public Member
- Barry Gardner, Retired Northrop Grumman, Public Member
- Kathryn L. Hewitt, Treasurer, Harford County
- Steve Horn, Director Planning, Zoning & Development, City of Westminster

- Ken Miller, Maryland Department of Information Technology
- Nadya Morgan, Asst. Commissioner of Code Enforcement, Baltimore City (Housing)
- Wesley Shaw, Department of General Services, Baltimore City
- William Voorhees, Department of Finance, Baltimore City
- Mark Vulcan, Maryland Department Business and Economic Development
- Linda Watts, Assistant Director of Finance, Business, and Customer Service, Howard County
- Jeff Williams, Treasurer, City of Greenbelt

5.1 Participants

Participants are individuals who are not members of AWG, but have an interest in assessment and property tax administration and who participated in meetings of AWG or its Subcommittees

- Brian Berg, Dept. of Finance, Baltimore City Government
- Tom Curtin, Maryland Municipal League
- Mike Coveyou, Montgomery County
- John David Evans, Baltimore City Government
- Hayley Evans, Public
- Mary Pat Fannon, Baltimore City Government
- Amber Ivey, State Stats – State of Maryland
- Andrea Mansfield, Maryland Association of Counties

- Thomas Pirritano, Baltimore City Government
- David Ryker, Baltimore City Government
- Craig Biggs, SDAT
- Owen Charles, SDAT
- Charles Cluster, SDAT
- Joe Glorioso, SDAT
- Michael Griffin, SDAT
- David Lyon, Counsel to SDAT
- William Henry Riley, Consultant

5.2 Meetings

AWG and subcommittees met on the following dates:

June 17, 2014	Preliminary Review
July 28, 2014	1st Meeting – Full AWG Vendor presentations & subcommittee assignments
August 26, 2014	2 nd Meeting - Full AWG Assessment overview, physical inspection & timely pickup presentations
September 15, 2014	3 rd Meeting- Full AWG Personal Property Overview Presentation Subcommittee work session - physical inspection & timely pickup
September 29, 2014	4 th Meeting - Full AWG Tax Credit and Exempt Property Overview Presentation Subcommittee work session - physical inspection & timely pickup
October 17, 2014	5 th Meeting – Full AWG Subcommittee work session - physical inspection, timely pickup, and tax credit and exempt property
October 20, 2014	6 th Meeting – Subcommittee meeting only Subcommittee work session – personal property
November 7, 2014	7 th Meeting – Full AWG - Draft Working Document Review StateStat presentation Subcommittee work sessions on findings and recommendations
November 13, 2014	8 th Meeting – Full AWG Final Draft Working Document Session
November 24, 2014	9 th Meeting – Full AWG Final Draft Working Document Session
December 4, 2014	10 th Meeting – Full AWG Final Work Session Meeting Full AWG consideration of the December 2 revised StateStat report Full AWG consideration of the revised AWG final report
December 12, 2014	Final Report Adoption - Each AWG Member individually voted by Email